Wrotenbery, Lori

From: Chavez, Frank
Sent: Tuesday, March 28, 2000 7:14 PM
To: Wrotenbery, Lori
Subject: Dugan Carpenter # 90

When we received the application for NSL approval for the Dugan Carpenter #90 we went to the proposed location and to the existing well location in the quarter section and recommended denial of the application.

Our first concern was for the unreasonable closeness of the proposed well location to the offsetting acreage, 280 feet. For a well in a 320 acre spacing pool, this is a great infringement on neighboring acreage. As the Basin Fruitland Coal pool is not prorated, there is not reasonable allowable restriction that could be imposed outside of a hearing. Dugan has not offered a proposal to restrict their production to compensate the offsetting acreage.

The proposed location is a grossly inefficient location for producing from the dedicated acreage. For comparison sake, the proposed location is 50 feet closer to the tract boundary than is allowed for oil wells on 40 acre spacing. Allowing a well this far away from a standard location would cause underground waste. This particular area does not have the high productivity of other areas of the pool and it does not seem reasonable that in the forseeable future another well could be drilled to recover that gas.

Given those important issues we looked at possible alternatives. There is a road and standard location available near to two other wells in that quarter. Dugan's objection to using that area was based on the proximity to the deeper Dakota completion and their concern that the completion of the coal well would be jeapardized by quality of the casing and cement program on the older well. Mr. Fegrelius was concerned that the fracture treatment of the coal well would break into the older well. Interestingly enough, the distance from Fruitland Coal well on that location the existing well would be the same as the distance from the proposed location to the lease/tract boundary and it would be just as likely to frac off lease as to frac into another well bore. Many Fruitland Coal wells have been drilled this close to deeper wells by prudent and responsible operators.

A shallow Fruitland Coal well has a very small footprint. The existing location will require only moderate dirt work. Dugan has already proved that this location is usable by drilling a Pictured Cliffs gas well on it in 1977 after the Dakota well had been producing for 15 years. Newer drilling practices would require even less surface than was needed 23 years ago. There are no nearby Fruitland Coal wells that demonstrate the volume of water production presumed in Dugan's letter of March 2. Even if the well initially produced at a few barrels of water per day, most Fruitland Coal wells show a significant decrease in water production over time. The existing Dakota well has successfully produced into the El Paso system for 38 years. A compressor at that site could be used for both wells and extend the life of the Dakota well even longer.

All locations this close to town are becoming more popular to outdoor enthusiasts. Mutiple

use of lands in the San Juan is a way of life for all residents and operators. Recreationists and operators have learned to accommodate each other over many years. This particular area is not unlike most others. As concerns the serenity of the area, Dugan has participated on the BLM committee that is addressing noise concerns and is aware of the guidelines and standards that have developed.

We agree that it would be more profitable to drill this well at the proposed non-standard location. With the difficult topography in the San Juan Basin, operators have had to be very creative and expend the extra effort to drill wells in standard locations that could have been drilled with less expense in non-standard locations. When operators acquire leases they take on a certain risk for potential development.

There is an alternative for development that could possibly allow this well to be drilled and answer the correlative rights and waste issues that have been raised. Dugan could request approval for a non-standard unit consisting of the SW/4 of Section 25 and the SE/4 of Section 26. This location would be standard in that unit. In order to prevent a snowballing effect of non-standard proration units and to prevent the potential for forcing small tracts to the north, it would be mandatory to also form a non-standard unit consisting of the NW/4 of Section 25 and the NE/4 of Section 26. This is a more creative approach to resolution of the problems with this development.